MINUTES
GENERAL EMPLOYEES' PENSION BOARD
POLICE OFFICERS' PENSION BOARD
FIREFIGHTERS' PENSION BOARD
HELD AT CITY HALL

February 13, 2015	**8:30 a.m.**	**Commission Conference Room**

1. CALL TO ORDER

Chairman Kelly McGuire called the meeting to order at 8:35 a.m.

General Employees' Pension Board members present were Chairman Kelly McGuire, Secretary Sam Butler, Dave Ponitz and Scott Selis.

Police Officers' Pension Board members present were Chairman Ken Artin, Secretary Shane Jarrell, Amanda Hayes and Royce James.

Firefighters' Pension Board members present were Chairman Joe Dupree, Tommy Bozeman and Lee Strong.

Also present were Gus Baglio of HGK Asset Management, Inc., Steve Atkins and John Gunther of Polen Capital, Gregg Gosch and Marc Davis of Sawgrass Asset Management, LLC, Lee Dehner of Christiansen & Dehner Charles Mulfinger and Scott Owens of Graystone Consulting, and Patrick Donlan of Foster & Foster.

2. APPROVAL OF MINUTES OF DECEMBER 10, 2014

Ms. Amanda Hayes moved, seconded by Mr. Ken Artin, to approve the minutes of the December 10, 2014, meeting. The motion passed unanimously.

3. APPROVAL OF MINUTES OF JANUARY 8, 2015

Mr. Sam Butler moved, seconded by Ms. Dave Ponitz, to approve the minutes of the January 8, 2015, meeting. The motion passed unanimously.

Mr. Tommy Bozeman moved, seconded by Mr. Lee Strong, to approve the minutes of the January 8, 2015, meeting. The motion passed unanimously.

4. PUBLIC COMMENTS

There were no public comments.

5. CERTIFY ELECTION

Ms. Amanda Hayes moved, seconded by Mr. Ken Artin, to certify the election of Mr. Royce James as a Trustee of the Police Officer's Pension Board to serve the remainder of a two-year term to September 30, 2015.

Mr. Lee Dehner, Attorney for the Board, advised that Mr. James that he would need to file Form 1/Financial Disclosure within 30 days and every year thereafter as of July 1.

6. ELECTION OF SECRETARY

Ms. Amanda Hayes moved, seconded by Mr. Ken Artin, to elect Mr. Shane Jarrell as Secretary for the Police Officers' Pension Board. The motion passed unanimously.

7. ELECTION OF FIFTH TRUSTEE

Mr. Ken Artin requested the board to table this item until the May meeting of the board.

8. PRESENTATION OF HGK ASSET MANAGEMENT (Large Cap Value)

Mr. Gus Baglio stated that HGK had consistently produced superior returns over long time periods, focusing on cash (not earnings) to identify securities which may be undervalued. More specifically, he stated that they looked at how companies deployed their cash generated in their business and their returns. He stated if the cash return was high, it would rank high in the listed stocks they wanted to own. He stated they evaluated the wealth creation strategy (how they reinvested their cash) and determined whether there was an unwarranted dislocation. He stated that they employed a very well-defined sell discipline, which meant if they were right on a stock and then it went up and went higher than they thought it should, which they would consider an unwarranted dislocation, then they would have to find a stock to replace that particular holding with another holding that was more valuable in relative terms.

Mr. Baglio stated the good news was that they had almost an 18% return for the past five years. He stated the most recent one-year return was 11.9%.

Mr. Joe Dupree noted that all their returns were below the benchmark and he asked how HGK compared to other large cap value managers; whereby, Mr. Baglio stated that the reason their return was below the benchmark was because they had overweighted oil stocks, such as Coneco, Chevron, and Exxon, whose values had gone down. He stated they were very concerned about that. He stated he did not usually read a statement into the record, but in this particular instance, he stated he felt a statement by Mr. Michael Pendergast was pertinent to their underperformance during the quarter:

> *"The world's most economically significant commodity experienced a drastic and persistent decline throughout 4Q14, as crude oil prices fell more than 40%. This type of movement, which occurred without a sudden and large change in supply or demand, causes us to take a step back to consider the economic and political consequences and how it might alter investment decision making.*
>
> *As value investors we focus on what we know to be true and recognize that we cannot forecast the unknown; instead focusing on investing in situations which we believe have positively skewed risk and reward. As we write this outlook, crude oil prices have dropped below $50. Here is what we know:*
>
> - *On balance, a sustained drop in oil will benefit global economies*
>   - *Oil consumers will broadly benefit from lower prices whereas oil producers will be hurt*
> - *The United States has become the world's largest producer of oils*
>   - *Below $50, the vast majority of US exploration properties are unprofitable*
> - *Government budgets in oil rich countries are in deficit with oil below $70*
>   - *The 4 largest net exporting OPEC members require between $75 and $115*
> - *Market prices in general are typically reflexive*
>   - *Lower prices decrease supply (costly US production) and eventually increase demand (more SUV sales, cheaper airfare, driving vs. public transit, etc.)*
> - *Rapid price changes and uncertainty have many cascading effects*
>   - *Short term increase in volatility, geopolitical risks, currency fluctuations, and risk aversion are potential consequences*
> - *Though spot oil prices have declined dramatically, longer term expectations have been much less effected*
>   - *This suggests that market participants do not believe that recent short term volatility is likely to be long lived*
>
> *While it is a fools game to forecast commodity prices, particularly in the short term, given the above we believe in aggregate there is likely a greater medium term upside to the*

> *commodity and corresponding securities than to the downside. That said, the drastic price movement will have reverberations within the industry. Higher cost, leveraged, and capex intensive participants may have difficulty remaining solvent if spot prices remain low. Instead we focus on well capitalized, lower cost, and diversified businesses. These firms will participate if a recovery occurs and will likely be the longer term winners in what surely will be a more disciplined industry.*
>
> *With this in mind we embrace disruptive short term markets as they can provide us with the opportunity to invest in attractively valued businesses. Because of economic cyclicality, and exogenous price shocks it is difficult to predict profitability in the short term. However, there tends to be more clarity in understanding the value a business creates over the long run. Over our decades experience in value investing, we have continuously found success in investing in companies which are pricing in valuations that imply at or close to their cyclical economic troughs. As always we seek to invest in well run businesses with favorable market fundamentals trading at discounts to intrinsic value."*

Mr. Baglio noted that they did not own the vast majority of U.S. properties, as they owned companies with vast proven reserves. He further noted that these countries could not remain for long at low oil prices without having some major political upheaval.

Ms. Amanda Hayes asked if HGK was adding to their positions; whereby, Mr. Baglio replied that they were and felt it was presenting an unusual opportunity, which they had seen reflected as an opportunity to increase the positions and the companies they believed in, and would be likely to reverse the somewhat underperformance and benefit the fund in total.

Ms. Hayes asked what timeframe with oil being under $8 per barrel and no potential for it to get back near $100 per barrel; whereby, Mr. Baglio stated it went to the point of consumers' benefit and producers got hurt.

Ms. Hayes asked about the funds HGK was investing in now to take advantage of the low price of oil, as it sounded like they were adding to the position and not moving into something else that would cause the consumer to buy more of; whereby, Mr. Baglio stated that they had moved to underweight Healthcare stocks because they were not at this point considered as value. He stated that in some cases they took money off the table in particular positions where they felt they were overvalued relative to the overall market and relative to the competition, redeploying in many cases to the undervalued oil situation.

Ms. Hayes asked if they were exiting the position; whereby, Mr. Baglio stated that they were peeling it back, but not exiting. He stated that one of their large holdings was United Health Care, who had been hitting new highs in new higher valuations, making it vulnerable, so they would not exit the whole position but would peel it back maybe 20%. He stated that in some cases within the drug industry, they had been selling some of their position in Merck and redeploying it in Johnson & Johnson, which they felt was a better valuation. As far as the oil situation was concerned, he stated it looked like a terrific opportunity, but he could not give her a timeframe, as over time this situation would self-correct either by producers paring back on oil rigs, which they were currently doing as he saw this morning that over 100 rigs had been deactivated as of the past few months. He stated that a lot of the high cross and highly leveraged producers were going out of business, as this self-corrects the oil price situation.

Ms. Hayes asked if HGK used a bottom up approach; whereby, Mr. Baglio stated that they were totally bottom up, as they looked at the individual companies rather than the macro. He stated they did not feel very good about being caught with an overweight in Energy, but sometimes what appeared to be a value today was much bigger value tomorrow, especially where there was that much of a vertical drop in the price of a commodity.

Mr. Baglio stated that Mr. Pendergast noted that supply and demand had not changed and it looked to them that there had to be a hard place in the portfolio for hard commodities, EG, oil, minerals and so forth. He stated that there was another classification of investors known as momentum players, who saw an uptrend/down trend and would either buy or sell and go with the trend and this was what they felt happened with the price of oil, particularly in the 2008, 2009, and 2010 area. He stated that now was the reverse margin cost selling on the part of momentum playing speculators or people just reallocating assets out of the commodity, which was what had moved this oil. He stated that no one had significantly changed their consumption of oil or fundamentally changed their production of oil. He stated it was an asset that fell out of favor and burned a lot of people. He stated it did not have an impact on this fund except for a temporary underperformance.

Mr. Scott Selis asked if Mr. Baglio was attributing their underperformance relative to Russell to the drop in oil prices; whereby, Mr. Baglio stated not solely, as they also attributed it to other mis-weighting, such as an underweight in Health Care because they were at the expensive end of their range. He stated they tend to try and keep their ratios below that of the benchmark, i.e., lower price earning multiple, higher dividend yield, companies with a lower volatility factor, and so forth, because in the long run this was the way they had been able to outperform. He stated in the short run, they would have spells such as this and generally made it up as time went on.

Ms. Hayes asked if any of their portfolio managers had been going out to the companies; whereby, Mr. Baglio stated that they had people who reached out to the companies. He stated that things were different with disclosure now and they could not get information from companies unless they gave it to everyone, so they reached out and listened in on conference calls every day and asked probing questions of CFOs and CEOs of companies. He stated they made sure that they listened to these people and asked questions that were relevant to their concerns.

Ms. Hayes asked if HGK had a list of the portfolio holdings; whereby, Mr. Baglio stated that they did and all three funds had proportionately the same holdings (he referred to page 19 of his report).

Mr. Dupree commented that HGK had not beaten the benchmark since inception; whereby, Mr. Baglio stated that the underperformance was very much influenced by what was just discussion.

Mr. Selis stated that he believed the question was what explained the long-term underperformance when everything he had cited was short-term, underweighting and the drop in oil prices; whereby, Mr. Baglio stated that he was not sure the underperformance had been a chronic thing, but he felt the underperformance was attributable to the overweight in Energy and underweight in Healthcare and Financials at this particular point. He stated that this had not always hurt them, as it had helped their performance in some cases.

Mr. Charles Mulfinger, Graystone Consulting, stated that the boards started with HGK in April 2009 at the market bottom. He stated that the market had steadily gone up since 2009, which was one-half of a market cycle. He stated it was not an up and down market or an up and down economy. He stated that companies that focused on fundamentals in an all up market typically underperformed. He stated that it was not specific to HGK, as they were seeing it across the whole industry. He stated we started with HGK right when the market was taking off. He stated their performance was not unusual, but it was explainable. He stated he always wanted to see performance better than the benchmark, but he was not overly concerned with their performance at this time.

Mr. Selis asked if Mr. Mulfinger anticipated as the market corrected downward that there would be an over performance; whereby, Mr. Mulfinger stated that was correct. He stated that the portfolio was constructed so that the managers looked and acted differently, and with HGK, we would expect them to not go down as much in a down market. He stated that it would be the same with Polen and Sawgrass, as they were close to the middle range in growth management. He stated that Apex was more volatile, and in a down market he would expect them to go down more. He stated that he was not overly concerned during this time period.

Mr. Royce James asked about our money in their portfolio; whereby, Mr. Baglio stated that when we entered into the portfolio, it might have been when other holdings were approaching a sale and our portfolio would end up with the holdings that were bought; but for the most part, our portfolio was pretty much the same as other portfolios with the same discipline for large cap value.

Mr. James asked if they created funds for our portfolio; whereby, Mr. Baglio stated that the portfolio was managed specifically along the guidelines we gave them, but they were our property.

Ms. Hayes commented that the investment managers were paid based on their performance and research for large cap value only. She stated that they could not venture into any other territory.

Mr. Lee Strong commented that we relied on the investment managers to make the stock selections on our behalf.

Mr. James commented that it was not a mutual fund, but it was run as a mutual fund management; whereby, Mr. Mulfinger stated that it was not a mutual fund. He stated that his firm evaluated them on disbursements and returns, so how one client's returns compared to another client's returns was like our three plans where the returns were very similar. He stated that they should follow the same process for all their clients, and they were doing so.

Mr. Baglio stated that one of the constraints they had going up against the benchmark was that their style would drift (style drift) and a stock would be over owned and outside of their discipline. He stated that we were not paying for a benchmark, but for thoughtful, disciplined management.

Mr. Mulfinger stated that was the concept of being a fundamental manager, looking for high quality and cash flow and expecting to see cash flow rewarded in a down market with a lower decline, and over time a higher return with less volatility.

Mr. Selis asked which strategy we should be taking advantage of both value and growth, because it sounded like value gave up returns in an up market with the hope that we will get higher returns in a down market. He asked if there was a strategy that shifted based on the direction of the market and if that was something that the boards should be considering.

Ms. Hayes stated that value and growth were two separate strategies so when one was not in favor, the other would do better; whereby, Mr. Baglio stated that our portfolio was well-diversified with different styles/strategies, so that in aggregate our return would be sufficient to pay the benefits.

Mr. Mulfinger stated that when he gave his report we would see that the combined return of our investment managers had less risk over the whole time period with a little higher return. He stated that the last five years had been very difficult because of a strong up market, so the managers that were more defensive have had a difficult time of meeting their benchmarks. He stated that during the longer term, which included the down market, we should hope the result in the down market was that we went down less and a combination of both time periods showing that there was a higher return and less risk. He reiterated that we look for our managers to do different things; and by putting them together, we hoped to accomplish the objective for longer term growth.

Ms. Hayes noted that they looked at the overall return, but the risk had to be spread out for an extra layer of protection for the pension funds.

Mr. Selis stated that in other words we were accomplishing the objective by the diversification of the managers; whereby, Mr. Mulfinger stated that the different style managers would move differently from each other for a steadier return over time, reducing some of the volatility. He stated we were trying to reduce some of the up and down so that both the city and the pension funds could have a steadier return moving in the right direction.

Mr. Scott Owens stated that each manager had an individual mandate and were trying to beat their benchmark. He stated the managers wanted to outperform their benchmark over a market cycle.

Mr. Mulfinger stated that they want to beat their benchmark in both up and down markets combined.

Mr. Owens explained that the managers were pieces of a puzzle, with the whole puzzle being the portfolio. He stated that the managers had different mandates and would not do the same things at the same times, as you did not want them to do so. He stated that over a full market cycle, including an up and down period, there would be a higher return with a lower level of risk. He stated that it was important to look at the managers in a portfolio context rather than an individual manager context, but also understanding what the individual manager brought to the table.

Mr. Owen noted that Mr. Mulfinger stated that active management had not done as well as the benchmark in the last five years, because the largest percent of market returns had been driven by companies with low and/or no earnings. He stated that the bottom up companies have rocketed off the bottom. He stated the market was currently more fairly priced and correlations were separating. He stated that the expectations of active management going forward should be to outperform because now fundamentals should matter.

Mr. Dave Ponitz asked about the term "unwarranted dislocation"; whereby, Mr. Baglio stated that it was something that was overlooked or kind of a lucky break, something that was unexpected, such as an oil strike, that went unrecognized for a period of time by other investors.

Mr. Mulfinger stated that what was happening with oil prices right now was an unwarranted dislocation. He stated that supply and demand had stayed level, so something else had caused it, making it unwarranted and an opportunity for purchasing it.

Mr. James asked about the investment managers' fees; whereby, Mr. Mulfinger stated the fees were negotiated on 50 bps. or less. He noted that small-mid cap and international fees were a little higher, but large cap fees were a little lower. He stated that we had very competitive fees as compared to the index, which was still lower. He stated that active management over time would hopefully add enough value to offset the increase in fees.

Mr. Baglio stated that it was HGK's experience that they had been able to beat the market and benchmark over time. He stated they had been in business almost 35 years, and over the years had developed the large cap value style. He stated that their company had quite a crop of young analysts to support the portfolio manager, who were extremely well-educated and specialized by industry, with the idea to provide the best possible service and return for their clients. He stated that they would get through this market cycle and things would stabilize.

Ms. Hayes asked if there was any chicken or beef exposure in the portfolio; whereby, Mr. Baglio stated that he did not believe so.

9. PRESENTATION OF POLEN CAPITAL

Mr. John Gunther, Relationship and Partner with Polen Capital, and Mr. Steve Atkins, Investment Team Research Analyst, were present today.

<u>Firm Overview</u>

Mr. Gunther stated they were a Florida based firm with 31 employees in Boca Raton, Florida. He stated they managed a high-quality concentrated portfolio. He stated that everyone at Polen Capital was materially invested in the exact same stocks as our portfolio, having their interests aligned with ours. He stated they wanted to grow the money and it was very important for them to protect it in down markets. He stated that Polen currently managed $5.5 billion in total firm assets. He stated that last month they received their first allocation from a non-U.S. client. He stated it was a Dutch pension plan that allocated about $150 million to Polen Capital. He stated that Polen Capital had a long-term investment horizon and sought to invest in only the very best businesses. He stated that when the market got tough, they did a good job of preserving the capital.

Mr. Gunther stated that Polen had been in business for over 26 years with their focus on large cap growth. He stated that over the years they had a lot of demand from institutional clients to come up with more of a global approach, which they felt was a natural extension of their skill set, but they did not want to distract the existing team. He stated the portfolio managers that had been managing money on our behalf were still in place and focused on our portfolio. He stated they had hired a global portfolio manager, Julian Pick, which they launched last month.

Mr. Mulfinger stated that the total assets were listed as $5.4 billion, and in the past two years there had been some volatility in the assets from their outperformance/underperformance. He stated that he had had concerns about the underperformance prior to this quarter, and he asked if that figure was accurate; whereby, Mr. Gunther stated that it was. He stated that in 2012 they had about $3 billion in assets, and their tract record had been very good; and then they hit a period when their style was out of favor so the relative rankings dropped, but their style was back in favor and they were up to around $5.5 billion.

Mr. Steve Atkins stated that Polen was a conservative, large cap growth manager with a very concentrated portfolio, as they held approximately 20 high-quality companies. He stated that they were very different from the benchmarks. He stated they chose the best companies they could find, companies with big competitive moats around their businesses, great balance sheets, little to no debt or cash to offset any debt on their balance sheets, strong reserves on capital sustained over economic cycles, shareholder friendly management teams, and very strong secular tail winds in industries in which the businesses operated. He stated they were very long-term investors, as the average holding was four to five years. He stated they tried to keep the turnover low because they felt the best value they could extract from the companies was by holding them for long time periods and letting the earnings from the companies themselves deliver the return for them. He stated they did not make market predictions and were not good at market timing, but they were very good at owning great companies over periods of time. He stated that their ability to protect capital during down markets was very, very good, and they had always held up very well during down markets and were quite proud of that, which again was because of the types of businesses they invested in. He stated that they expected those companies to grow earnings, even during recessions, because of the nature of their businesses and their ability to do well even in tough economic environments. He stated that this was the only time tested product which they had managed for the past 25+ years, until recently when they launched their first new product.

Mr. Dave Ponitz asked about diversification in sector weighting; whereby, Mr. Atkins stated that they had very loose sector limits and tried to keep them at less than 50%. He stated they did not diversify for the sake of diversifying, but did pretty much the opposite of that and thought that it did not add value for the most part. He stated they found as many of the best companies as they could. He stated they had some sector guidelines, but they were very loose.

Mr. Ponitz asked about turnover; whereby, Mr. Atkins stated they had a fairly low turnover, about 25%, and believed in buying and holding the stocks. He stated they desired to let the earnings growth of those businesses compound over long periods of time and the share prices should follow.

Mr. Mulfinger stated that some would say a bottom up portfolio that did not have a lot of constraints could be more risky because they would be heavily weighted in sectors from a macro standpoint for a long term, which could create volatility. He stated Polen invested in America’s best companies, which would be less down in a declining economy or declining market; and therefore, less risky over time as the companies had demonstrated they had not fallen as much in a declining market. He stated that there were two different views.

Mr. Atkins stated that there was the perception of being more risky because they were concentrated, but they had consistently outperformed in down markets. He stated that it was not the number of names in your portfolio that determined the risk, but the types of companies that determined the risk.

Ms. Hayes asked about a trigger for opportunities; whereby, Mr. Atkins stated that there was no trigger as they tend to sell because the valuation of the stock was too high for them to believe that they could still maintain an acceptable return from that particular position, or because the competitive advantage of the business was somehow been impaired or was not as strong as they previously thought. He stated they would exit the position at that point.

Ms. Hayes asked when they sold the entire position; whereby, Mr. Atkins stated that there were times when they would trim a stock if they got a little higher than what they felt was warranted for the business, but typically once they started selling they would gradually exit the position. He stated that it depended on the circumstances.

Mr. Dupree commented they had said they held a position for four or five years.

Mr. Gunther stated that there had been times when they eliminated a full position all at once, such as American Express in 2008.

Mr. Atkins stated that Polen managed about $12 million for our plans. He stated there were about 20 stocks and the average weighting was usually 5.0%-6.0%, as they owned large percentage positions in great businesses. He stated the only change between the end of the year and now was that they had sold their remaining stake in Allergan, which was their top performing holding last year.

Mr. Scott Selis asked about the shifting of the way of paying for things and how it would affect companies such as MasterCard and Visa; whereby, Mr. Atkins stated that they thought Apple Pay would be a big benefit to MasterCard and Visa, maybe because Apple paid to ride on top of the rails of MasterCard and Visa. He stated there would be the ability for iPhone 6 users to make transactions, which would be processed like a regular credit card transaction over the rails of MasterCard and Visa. He stated they felt that their decision to create Apple Pay to simply ride on top of MasterCard and Visa rails was validation that it was extraordinarily difficult to create a new competitive network to MasterCard and Visa.

Mr. Gunther stated that it would cost hundreds of millions of dollars to pitch a new network and that was how MasterCard and Visa could dominate the space. He noted that they were very close to being a monopoly.

Mr. Atkins stated that Apple's annualized revenues were about $200 billion and Apple Pay would be a very modest increase in revenue for them, unless it happened to be much more successful than they expected.

Mr. Royce James asked about the value of the dollar and what was expected for multinational companies; whereby, Mr. Atkins stated that it was a definite headwind, for instance for Abbott Labs who had a large percentage of their revenues coming from Emerging Markets. He stated that for 2015 they expected the strong currency to be almost a 10% headwind and they would still continue to grow. He stated they did not get too caught up in earnings growth headwind because they were not a currency manager, and it was not an area where they had a lot of expertise, and they usually did not make decisions based on whether the dollar would be strong/weak over the next couple of years. He stated they were far more concerned by the quality of the businesses and their ability to continue to grow, even in spite of those headwinds.

Performance

Mr. Atkins stated that since inception their performance net of fees was just under 14.0%. He stated they were trailing about 300 bps. net of fees since inception, but they were pleased with the one-year return of 17.66% net of fees as compared to the Russell 1000 Growth at 13.0%. He stated that the fourth quarter of last year was particularly strong as their return was 10.30% vs. the benchmark at 4.78%. He stated that they were confident that their relative performance would improve over time as the market recognized the quality businesses they owned.

Mr. Atkins stated that their fourth quarter numbers were driven by broad based performance as 13 stocks out of 20 were up over 10% during the quarter, and nine stocks were up over 15%. He stated that there was a brief downturn in September and October which helped their performance and protected capital.

Mr. Mulfinger noted that Energy and Materials did the worst during the fourth quarter, and Polen had no money in Energy or Materials, which was taking an active bet. He stated they had 44.98% in Technology vs. the benchmark at 28.0%, which was a big overweighting, too. He stated that they were not benchmark aware or benchmark matching, but were more active share and did not look like the benchmark at all. He stated they hoped that over time it played out, but it had not been playing out prior to this quarter, so it was really good to see a really strong outperformance, as they were still behind relative to the benchmark for the whole time period. He stated he still needed to see some additional outperformance going forward.

Attribution

Mr. Atkins stated that Health Care, Financial Services, and Energy drove the outperformance for the fourth quarter. He stated that Health Care was driven by a holding in Allergan, Financial Services by holdings in Visa and MasterCard and Energy was driven by the fact that they did not own Energy. He stated they typically never owned commodity-based companies because they were looking for certain economics in businesses, such as high staying in terms of capital from the companies they owned. He stated from their experience commodity-based companies, including Energy companies, had not been able to sustain high returns across cycles. He stated that commodities were a very difficult market to predict and that fact made them not want to own them. He noted that there were a couple of Energy businesses that were close to the types of businesses that they wanted to own in terms of their sustainability and high returns, but they were not there yet.

Mr. Atkins stated that Allergan, a multi-specialty health care company, was their best performer in 2014 and drove a lot of their outperformance which was driven by consumer demand. He stated they had held the position for about six years with a weighting of about 9.0%. Recently, he stated that Allergan was involved in a bidding war between two companies, and was ultimately acquired by Actavis.

Mr. Gunther stated that there were times when an active manager could fall out of favor as some as their holdings were ignored by the market, and Allergan was one of those companies that grew along the way, but it was not until this year that two big businesses finally realized they wanted to acquire Allergan which caused that bidding war and drove the price up.

Ms. Hayes asked if they exited Allergan; whereby, Mr. Atkins stated that they traded it first and then this past week had fully gotten out of the position.

Mr. Mulfinger stated that when we first hired Polen, one of the concerns was that Mr. Polen was gravely ill and had since passed away and if they would stay with the same process with the same results in the future. He stated Polen's results were very poor after the boards hired them. He stated that his firm had met with them and Polen said they were doing what they were hired to do, but the market had not rewarded them as far as stock prices going up.

Mr. Gunther stated that he had worked with Mr. Polen, who had developed a process that was successful and repeatable. He stated that Mr. Polen strategically hired people to carry on this process in case something should happen to him. He hired Damon Ficklin in 2003, who hand-selected Allergan, which was one of the best winners ever in the history of Polen Capital. He stated that Mr. Polen passed the torch to Damon Ficklin and Dan Davidowitz, and let them run the show, He noted that almost all the names in the portfolio over the last five years were picked by Mr. Ficklin and Mr. Davidowitz. He stated that they knew what they were doing and Allergan was a great example.

Mr. Scott Owens, Graystone Consulting, commented that not holding Energy stocks was a huge bet, and he asked what their reasoning was for that; whereby, Mr. Atkins stated that they never owned Energy stocks, so it was not something they just decided to do.

Mr. Atkins briefly discussed the portfolio activity for 2014 with the boards.

Mr. Scott Selis left the meeting at 10:00 a.m.

10. PRESENTATION OF SAWGRASS ASSET MANAGEMENT

Mr. Greg Gosch and Mr. Marc Davis of Sawgrass Asset Management were present today.

Overview
Mr. Greg Gosch, Client Services Manager, stated that Sawgrass had been our large cap growth manager for the past three years. He stated they were still 100% employee owned, doing business in 21 states, and had added 14 new institutional clients last year, and four so far this year. He stated they had just under $4 billion in assets under management. He stated they had not lost any equity team members since they formed the company 17 years ago, and felt like they had a very stable team.

Market
Mr. Gosch stated that this was the strongest three years they had had since 1995-1999. He stated that last year was a low volatility year, except for the fourth quarter, with two down markets of 8.0% and 4.0% and finishing the quarter up around 4.0%. He stated they did not have more than three negative consecutive days in 2014. He stated their number one performers were Southwest Airlines and Kroger Grocery Stores, which was possibly purchasing Winn-Dixie. He stated it was a fundamental mannered market. He stated that their philosophy was strong with consistent earnings, strong balance sheets, and over time those companies would outperform. He stated they were very conscious of risk, and their number one focus was the folks receiving pension checks.

Mr. Gosch stated there had not been a full market cycle in the past five years as they had had a six-year bull run, so they were kind of looking over their shoulders for when the bottom might be coming. He stated that over the last five years, their return was 16.41%, which was in the top 25% of 380+ active large growth managers. He noted that volatility and risk were in the top 2.0 percentile. He stated that Sawgrass outperformed in all negative markets; in normal positive markets outperformed 13.92% vs. index; in very strong markets they would lag slightly; their cumulative return was almost 190% vs. the index at 122%; and their annualized return was at 180 bps. over the index while taking significantly less risk. He stated they tried to help the smoothing process over time with less of a rollercoaster ride pertaining to return and risk.

Mr. Dave Ponitz commented that the returns for 2008 were not correlated with the market as in earlier years, and he asked how the fund changed; whereby, Mr. Gosch stated that there was high correlation across the markets and everything rose, so it was hard to separate yourself in 2008.

Mr. Marc Davis, Equity Portfolio Manager, stated that they had a little bit of a tailwind before the market rolled over, but the portfolio did perform low relative to that period, so they had a little bit of ground to make up. Looking back, he stated they would have preferred to have done better in that environment, but it was a different type of bear market than 2000, 2001 and 2002 and much more concentrated than large cap type stocks. He stated that the small cap market did pretty well throughout that period, but there was really high exposure to those names that had gone so high during that period. He stated that the overall industries were down a lot because of that, but it was really concentrated with a high weighting in Tech stocks. He stated they did not have as much exposure on the upside as the downside, so that was part of the return.

Performance

Mr. Davis reported that the returns were very strong for the quarter, one-year, two-year annualized and since inception. He stated that from their experience they thought they might have had some headwinds when they saw these charts. He stated they had found that it had been a much more balanced market over the last three years, as there had not been as much of a speculative build. He stated they felt their process and stock selection had worked for them.

Mr. Davis stated that Apple had been in their portfolio for a long time and they were currently underweight to the index, but it was still a very large weighting in the portfolio and had a very good year. He stated they had a great weight in Kroger and Southwest, as Kroger had been in the portfolio since 2011 and Southwest was bought late in 2013. He stated they had added a new Energy company in the middle of 2014, Southwestern Energy Company which outperformed for the year. He stated it was a very good year overall.

Mr. Ponitz commented that IBM was not a good performer; whereby, Mr. Davis stated that IBM had not been a good performer for some time. He stated that Conagra and Pet Smart were sold and had turned around after that.

Mr. Joe Dupree commented that Polen’s holdings were very different from Sawgrass’s; whereby, Mr. Gosch stated that a couple of years ago they both had a lot of similar names, just different weightings.

Mr. Dupree asked if Sawgrass researched other large cap growth investors; whereby, Mr. Gosch stated that their strategy was similar and they had another “focus” strategy which had the same names but more concentration.

Mr. Davis stated that they were not trying to take big sector bets because their beta system was driven to find the best stocks in each sector, and they felt they had a pretty fair representation across the market.

Mr. Davis stated the only major change during the quarter was the addition of the Dollar Tree and they sold Sigma Aldridge, which was acquired by a German company.

Mr. Dupree asked if Family Dollar, General Dollar, and Dollar Tree where owned by the same company; whereby Mr. Davis stated that Family Dollar and Dollar Tree recently merged, but from their standpoint they were different as Family Dollar had a much greater assortment of different prices where at Dollar Tree everything cost a dollar.

Mr. Gosch stated that Dollar Tree would become the largest retailer in the United States, larger than Wal-Mart, not by sales, but by selection.

Mr. Davis stated that they looked for stable consistent growers and Dollar Tree fit that profile very well.

<u>Market Expectation</u>
Mr. Davis stated that over the year the market had rallied along the way, with a long run with very little pullbacks. He stated they had made close to 10% in October. He stated there had been two big dips since 2000, but their expectations going forward were a little more modest, given the run they had had.

<u>Their Process</u>
Mr. Davis stated they used a quantitative fundamental blended process where they had quantitative screening on the front end. He stated they looked at 24 different factors, six different factor groupings and concentrated on valuation, low price volatility, and sales earnings market profitability. He stated they tried to find companies at the front end of the process and put them into buckets based on the types of characteristics they found to be the best fit for the portfolios. He stated their goal over time was to be on the outperforming end but with much less risk and provide much less downside. He stated there would be periods like 2009 and 2010 where they would have a rough run in the markets which did not favor the types of companies they liked, but they felt like over time (full market cycle) there would be an opportunity for them to provide attractive upside returns with a much lower risk approach.

Mr. Davis stated that there would be periods where they did/did not outperform in negative markets, but their experience over time was that they would outperform.

Mr. Gosch invited the trustees to call him with any questions they had and he would respond within 24 hours.

11. INVESTMENT MONITOR REPORT (GRAYSTONE CONSULTING)

Mr. Charles Mulfinger, Graystone Consulting, stated the market had broken 18,000 as we were meeting here today, so they were back near a new high during the quarter and beat the benchmark and was up 3.0%. He stated over the long-term we had taken higher returns with less risk.

Mr. Dupree asked if Mr. Mulfinger was happy with HGK's performance.

Mr. Dehner stated that some cities followed Roberts Rules of Order whereby when there was not a quorum, the meeting would be stopped. Ms. McGuire stated that our city attorney had advised us to do that, as well.

12. DISCUSSION OF VESTING OF DEATH BENEFIT AT FIVE YEARS

Mr. Dave Ponitz stated that he felt the death benefit for beneficiaries was confusing and he desired to know what the cost to the plan would be to change it to five years; whereby, Mr. Patrick Donlan of Foster & Foster stated that the ordinance was kind of crazy because it said vested employees received one benefit and non-vested received a different benefit and then if you had more/less than ten years, you got different benefits. He stated that he believed the intention was to align it up with vesting, but it very specifically said ten years. He stated that he tested the criteria to five years and it did not have a big effect because they would already receive a refund of contributions and a lifetime benefit earned to that point. He stated that it would be a relatively small benefit from the five to ten year period. He stated they assumed a certain number of people would die before they retired and valued their benefit, so when they changed that benefit a little bit; it changed the present valued of those benefits.

Ms. McGuire asked if the amount on the special actuarial analysis that Mr. Donlan provided was the full cost or the cost for one year; whereby, Mr. Donlan stated it was the full total cost. He stated when it was amortized it changed the normal cost slightly and the unfunded actuarial accrued liability. He stated it would not change the city's funding requirements, but long-term there was about a $12,000 total value.

Ms. McGuire stated that Mr. Dupree and Mr. Bozeman had requested the Firefighters' Board to make a change in the PLOP options, but she stated the boards were here to insure that the assets were properly invested so that the dollars would be available to pay retirement benefits, not to initiate benefit changes. She noted that those kinds of things came up frequently on the Fire side, and those benefit changes had to be bargained. She stated that it was complicated in the General plan, as there were only about one-third of the members in the union and the other two-thirds were not.

Mr. Butler noted that vesting was changed from ten years to five years and he thought it was an oversight when the ordinance was amended. He suggested that no one even noticed until a couple of years ago.

Ms. McGuire stated that she would like to know the history of the amendment to find out if it was an oversight, and in that case it should be corrected and not need to be bargained.

Ms. McGuire asked if the cost would be $12,000 if the employees wanted to pay for this benefit change; whereby, Mr. Donlan stated that the plan was funded by a percentage of payroll.

Mr. Ponitz stated that he would like to clear up the language in the ordinance for any future beneficiary; whereby, Mr. Donlan suggested that maybe it was not properly put in codification form when it was originally negotiated.

Mr. Ponitz stated that he would not be present at the next pension board meeting, so that was why he wanted to discuss it at this time.

13. PRESENTATION OF ACTUARIAL VALUATION AND REPORT BY FOSTER & FOSTER

Mr. Patrick Donlan, Foster & Foster, stated that the total contribution went down by 1.0% of payroll, which was after the board made the assumption change from 7.25% to 7.0%, which cost about 2.5% of payroll. He stated the city's cost would have gone down by 4.2% of payroll before the assumption change, but the assumption change cost 3.2% of payroll.

Mr. Donlan stated there was a good investment return for the third year in a row at 20.1%, 13.48% and 11.9%. He stated they used a rolling four-year average return to develop the actuarial value of assets, which was 10.92%. He stated they had developed quite a bit of cushion in case of a down market this year.

Mr. Donlan stated that there was a new page in the report (page 36) for the GASB 67, which was what the city would have to show on their balance sheet this year. He stated that the unfunded liability was of $8.8 million, which was better than prior years. He stated the plan was at a 76.49% funded ratio.

Mr. Ken Artin asked Mr. Dehner what the board needed to vote on today; whereby, Mr. Dehner advised they needed to make a motion to accept/approve the valuation.

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to approve the Actuarial Valuation and Report as of October 1, 2014. The motion passed unanimously.

Mr. Dehner advised the board would need a motion to determine the total expected annual rate of return for the current year, next several years and long term thereafter based on Mr. Mulfinger's recommendation.

Ms. Amanda Hayes moved, seconded by Mr. Shane Jarrell, to approve an expected rate of return of 7.0% for the current year, the next several years, and long term based on the recommendation of its consultant. The motion passed unanimously.

Mr. Ken Artin left the meeting at 10:30 a.m.

14. ATTORNEY COMMENTS

<u>Legislative Update</u>
Mr. Lee Dehner stated that the boards had discussed Senate Bill 534 from two years ago whereby Mr. Donlan had to prepare calculations and file a report with the Division of Retirement within 60 days of the valuation report, but now the fly in the ointment was that the Division had not issued the format in which they wanted the information submitted.

Ms. McGuire stated they were waiting to complete the report, but could not until they received that information.

Mr. Donlan stated that the general and fire reports were approved in January and police today, so the 60 days was not up.

Mr. Dehner advised that Foster & Foster would file the report with the Division of Retirement, and the city would need to post it on their website, and the Division would only post the calculations identified in the legislation, but the city could put on its website additional information, such as the +2.0% calculation that the boards authorized at a prior meeting.
Mr. Dehner stated that there was also Senate Bill 242 pending, which we would not know the outcome until the end of April. He stated this would require local plans to utilize the same mortality tables that FRS used.

Ms. McGuire asked Mr. Donlan if the new mortality tables had longer life expectancies than the current table; whereby, Mr. Donlan stated that it was a little longer, but it would not be a huge increase. He stated that a different table was used for the police and fire plans.

Mr. Dehner stated that Senate Bill 224 would affect him in preparing contracts and would require him to put notification in the contract that some of the consultant's records may become public record subject to public records requests and identifying the contact person for any questions. He stated it even specified the size of the print, etc.

Mr. Dehner stated that Senate Bill 172 (former SB 246) and House Bill 341 would affect the police and fire plans providing that the parties would negotiate how the state money would be used and if agreement was not reached, then it specified a very complicated formula of how the money would be allocated. He noted that the Florida League of Cities opposed the bill this year. He stated he thought the biggest problem the FLOC had was if there was no agreement reached, they wanted to be able to go to impasse, as opposed to following the statute.

Mr. Ponitz thanked the board for allowing him to attend the FPPTA Trustees School, as he stated he learned a lot at the school and he felt the whole program was well presented.

15. OTHER BUSINESS

Mr. Joe Dupree asked for a motion to increase the PLOP options to 50%, 75% and 100%; whereby, Mr. Dehner advised that this would require an ordinance amendment.

Ms. Kelly McGuire advised that the PLOP and options currently available were created as part of the bargaining process, so this was not something that had been bargained.

Mr. Tommy Bozeman suggested that this was only an added option, and not a change in benefits; whereby, Ms. McGuire stated that it was a change in benefits as it was specifically negotiated with the current options. She stated that there was no interest by the City Commission to allow people to take all of their money out.

Mr. Bozeman asked if this was a change in benefit; whereby, Mr. Dehner stated that it was, but the city and union could waive bargaining and sign off on the proposed change. He stated that if either one of the bargaining parties would not waive it, then it would need to go to the table.

Mr. Dehner advised that there were other things they could do to enhance the pension plan, such as a tiered plan.

Mr. Bozeman asked what needed to be done to get this process moving forward; whereby, Ms. McGuire stated that there was a meeting coming up in a couple of weeks where this item could be discussed with the union.

Mr. Dehner suggested the board could also hold a special meeting.

Ms. Amanda Hayes asked about the difference between the DROP and PLOP; whereby, Mr. Dehner stated the differences as:

DROP

- it was as if you were retiring
- benefits were calculated and that was the end of your participation
- no further years of credited service were earned
- don't get the benefit of plan improvements or salary increases
- no recalculation of your pension benefit at the end of the DROP.

PLOP

- accrue additional years of credited service
- get the benefit of plan improvements

Mr. Tommy Bozeman left the meeting at 10:45 a.m.

16. ADJOURNMENT

The meeting was adjourned at 11:15 a.m.

Respectfully submitted,

Lois Towey, Recording Secretary

Attest:

Kelly A. McGuire, Chairman
General Employees' Pension Plan

Ken Artin, Chairman
Police Officers' Pension Trust Fund

Joseph F. Dupree, Chairman
Firefighters' Pension Trust Fund